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## Australia

## Wine

## Annual

## 2009

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**Report Highlights:**

Continued high stock levels, world financial turmoil, bushfires, high temperatures and drought appear to have more than offset the opportunities the Australian wine industry hoped to gain from the devaluation of the Australian dollar against major currencies in export markets. Post forecasts production and exports down in 2008/09. The Australian wine industry has continues to grapple with the serious issues of drought, low prices and high stock levels.

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## SECTION ONE: SITUATION AND OUTLOOK

### General

Continued high stock levels, world financial turmoil, bushfires, high temperatures and drought appear to have more than offset the opportunities the Australian wine industry hoped to gain from the devaluation of the Australian dollar against major currencies in export markets. Post forecasts production and exports down in 2008/09. The Australian wine industry has continues to grapple with the serious issues of drought, low prices and high stock levels.

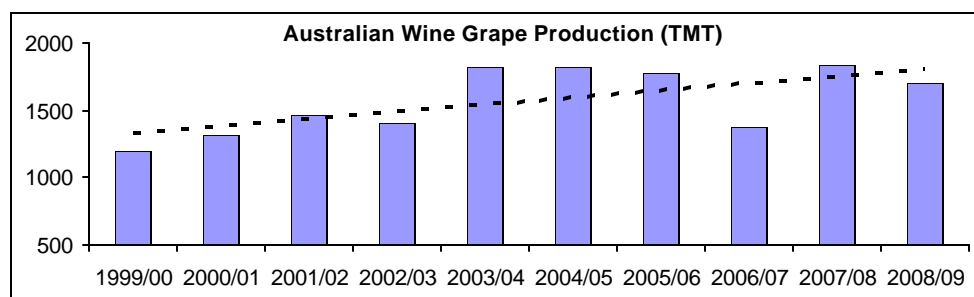
The Australian continent has been gripped by severe drought since 2002. In 2008, production rose above the 2007 level. Looking forward to the 2009 crop, producers generally were able to obtain sufficient irrigation water. However, extremely hot temperatures in late January and early February, particularly in southeast Australia, scorched fruit causing shriveling and sunburn. The impact of the high temperatures reportedly caused much more damage than drought and the bushfires. While locally very damaging, initial reports indicate that bushfire damage on national production was less than two percent.

High stock levels, export competition, and low prices have greatly diminished profitability in the industry over the past decade. Higher stocks, driven by significantly expanding production, have placed downward pressure on prices and this has greatly reduced profitability. An increase in the size of the 2007/08 vintage, and a drop in the levels of exports, has caused consternation among growers and vintners that many expect will lead to a period of industry restructuring.

Long term forecasts indicate prices will likely stay relatively low and stocks will remain historically high. With the uncertainty of the global financial downturn and its affect on demand for Australia's wine exports, industry sources are focusing attention on how to survive the downturn as compared to how to grow exports or improve the Australian wine brand name.

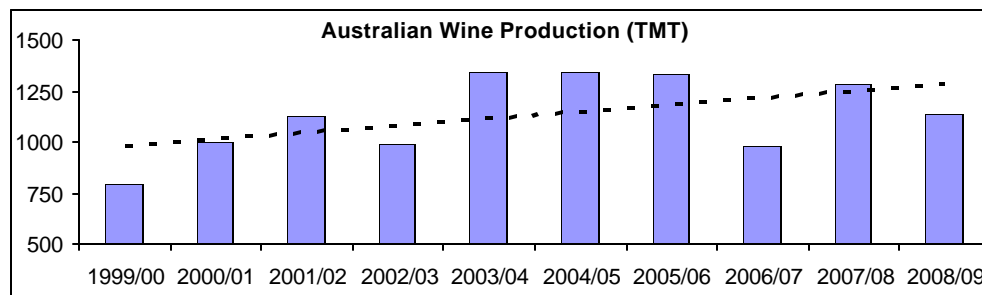
### Production

Post forecasts wine grape production for the 2008/09 vintage at 1.7 MMT in line with the Australian Bureau of Agriculture and Resource Economics (ABARE) forecast. As of early March, harvest is about half complete. The extent of the damage from the extended heat wave in late January through early February has yet to be fully estimated and appears likely to reduce this forecast. Some industry sources also peg the vintage size lower. Overall this season and into the future, drought conditions and ongoing shortages of irrigated water continue to constrain yields, particularly in South Australia, Victoria, and the western portion of New South Wales. About 90 percent of Australia's wine grape plantings are irrigated.



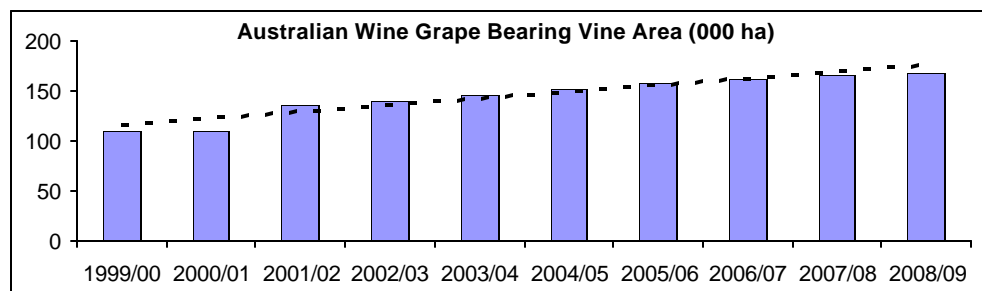
Source: ABARE

Assuming a 2008/09 vintage of 1.7 MMT, production would be just below average since 2003/04 and 8 percent lower than the 2008 harvest. Production at this level would likely result in record level stocks, given the forecast decline in export growth.



Source: ABARE Data – Post 08/09 Forecast

With the Australian total wine grape production for the 2008/09 vintage forecast of 1.7 MMT, wine production is forecast at 11,900 thousand hectoliters (THL) using a conversion factor of 0.7. ABARE forecasts the area of grape bearing vines in 2008/09 to have risen an estimated 1.2 percent to 168,000 hectares, with forecast yields reportedly declining nearly 9 percent from 11.066 tons per hectare in 2007/08 to 10.119 per hectare in 2008/09. Post concurs with the ABARE forecast but points out that the forecasts could drop as greater information becomes available on the impact of the heat wave. In addition, low domestic prices combined with low yields are expected to result in some producers deciding to leave some grapes on the vine.



Source: ABARE

## Exports

Post forecasts total wine exports for the 2008/09 at 6,500 THL (650.0 million liters) compared to ABARE's forecast of 6,950 THL (695.0 million liters). Uncertainty in the potential demand in the world wine market is the key difficulty in forecasting Australian wine exports. Economic conditions in Australia's top three wine export markets (United States, United Kingdom, and Canada) is expected to cause consumers to lower price points and reduce purchases. Even with Australia's high level of production and currency devaluation, industry experts say that Australia is having difficulty pricing their product at the lower price points.

In line with ABARE estimates, Post estimates that total exports for 2007/08 to have dropped to 7,020 THL (702 million liters), down roughly 11 percent on the 7,980 THL the previous year reflecting the importance of numerous world economic changes. Importantly, this reverses the trend of Australian wine exports increasing steadily over the past decade. Post

anticipates that the global financial crisis combined with high global wine stock levels may reverse what had been a rising trend of Australian wine exports for the near term.

Australian Wine and Brandy Corporation (AWBC) 2008 export data show that the United Kingdom remained Australia's largest export market, followed by the United States and Canada. China showed the strongest growth with exports to that destination growing by 32 percent in value even while declining 16 percent in volume. Major markets for Australian wine exports showed important declines in imports both in value and volume.



Source: ABARE

According to the Australian Wine and Brandy Corporation (AWBC), the turn around in exports was two-fold in nature with lower total volume (11.2 percent) and lower value (17.9 percent). Exports to the two largest markets, the United Kingdom and the United States were off significantly in calendar year 2008. In the United Kingdom, exports dropped 10 percent by volume and 18 percent by value. To the United States, exports fell by 5.6 percent by volume and 26.5 percent by value. Industry sources explained that the very strong Australian currency from January-September 2008 accounted for much of the decline in exports.

The world economic crisis is casting a shadow over the opportunity that the now devalued Australian currency would be sufficient to reverse the decline in exports. ABARE forecasts that demand in Australia's top three markets of the United States, the United Kingdom, and Canada will be constrained until the end of 2009/10 before recovering in 2013/14.

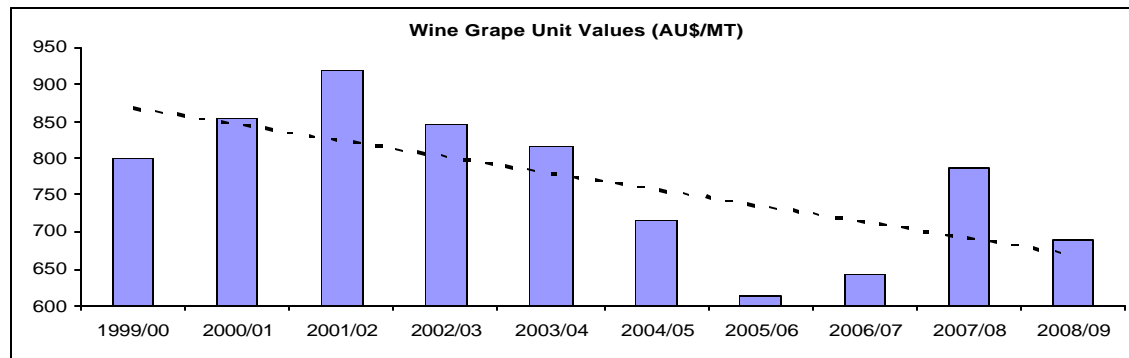
## Imports

Australia imported an estimated 533 THL (53.3 million liters) of wine in 2007/08, up very significantly on the 34.3 THL (34.3 million liters) estimated for 2006/07, according to AWBC data. Post forecasts imports to grow slightly in 2008/09 to 540 THL as Australian consumers appear to be increasingly willing to try foreign wines. Imports of wine have grown significantly over the past three years due to relatively high per capita consumption levels and a sharply stronger Australian dollar. Imports of wine from New Zealand, principally white wines reportedly accounted for much of the increase. Imports are expected to remain strong in the 2008/09 period as the currencies between the two countries have both devalued roughly in tandem.

## Pricing

Wine grape producers continue to express concerns regarding the low prices currently being received. ABARE forecasts that growers will receive an average price of AUS \$690 per metric ton, compared to AUS \$787 per metric ton in the 2007/08 vintage. Low prices combined with world demand uncertainty could lead to an increase in grapes not being harvested this

year. ABARE has forecast wine grape prices to continue falling out to 2012/13. Falling prices have seen the total value of Australian wine production contract from the peak reached in 2003/04.



Source: ABARE

## Policy

The Australian Wine and Brandy Corporation and The Winemaker's Federation of Australia (WFA) recently welcomed the December 2, 2008 signing of the Australia and European Community Wine Agreement. WFA leadership said that the agreement would bring a number of important benefits to the Australian wine industry, including the recognition of all existing winemaking techniques used in Australian production of wine and a simplified procedure to authorize the approval of new winemaking techniques. "The agreement will also simplify labeling provisions and a standstill clause has been adopted that prevents the introduction of more restrictive trade measures that could affect the importation of wine,"

Other benefits in the Agreement include:

- Under certain conditions, the terms ruby, cream, tawny and vintage will be able to be used to describe fortified wines on the European market;
- Wines with a mineral content which reflects the naturally occurring levels found in Australian agricultural soils will be able to be sold in Europe;
- More flexible blending rules have been adopted;
- Statements referring to the number of "standard drinks" in the wine, mandatory in Australia, will be able to be displayed on Australian wine labels entering the European market; and
- A commitment to work cooperatively with the aim of harmonizing their respective regulatory requirements in relation to the indication of ingredients in wine.

## Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at:

<http://www.fas.usda.gov/scripts/AttacheRep/default.asp>.

Report Number	Title of Report	Date
AS9007	New import conditions for chicken meat finalized	03/05/09
AS9006	Cotton Quarterly Update – March	02/20/09
AS9005	Agricultural situation 2009	02/11/09
AS9004	Govt. announces A\$9 million boost to wood export industries	01/29/09